

# Independent auditor's report

## Independent auditor's report to the members of Channel Four Television Corporation (the "Corporation") only

### Opinions and conclusions arising from our audit

#### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of the Corporation for the year ended 31 December 2013 set out on pages 171–211.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Corporation's affairs as at 31 December 2013 and of the Group's deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Corporation's individual financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as if that Act applied to the Corporation.

#### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

##### Programme and film rights (£221 million)

Refer to page 161 (Audit Committee Report), page 179 (accounting policy) and page 197 (financial disclosures).

*The risk* – There is significant judgement involved in estimating the value to the Group of programme and film rights. Although the assessment of this value on a portfolio basis does not result in a significant risk, there is a risk of a write-down being required when indicators of a reduction in the value of individual assets are identified, for example when:

- the quality of the programme means it may no longer be broadcast in the originally intended transmission slot such that there is a reduction in the related expected future viewing performance; or
- forecast future theatrical and DVD revenues no longer support the carrying value of developed film rights.

The majority of the costs of programme and film rights are written off on first transmission. There is, however, an increased level of judgement involved in assessing the profile of expected future advertising,

sponsorship or other related revenue in relation to certain types of programming including feature films, sports rights and acquired series, which may be written off over more than one transmission.

*Our response* – Our audit procedures included, among others:

- testing of controls over the approval of programme commissions and acquisitions, subsequent budget amendments and write-downs by the Group's Programme Approval committees;
- inspecting the listing of programme and film rights inventory with a focus on those items that are the oldest or have the highest carrying amounts, and those near rights expiry. We challenge the Group's assessment of the carrying amount of these items through independent enquiry of the programme scheduling team; inspection of the programme schedule for the three-month period following the year end date; and testing a sample of programmes scheduled to subsequent transmission;
- critically assessing forecast film rights income through independent enquiry of the Film4 commissioning team to understand performance expectations; reference to third-party theatrical release data and sales of distribution rights to date; and historical experience of theatrical, distribution and DVD revenues generated from film releases;
- where programmes and films are not fully expensed on first transmission, challenging the assumptions underlying the calculation of transmission cost write-offs with reference to historical viewing data; and
- considering the adequacy of the Group's disclosures about the degree of uncertainty involved in the carrying value of programme and film rights inventory.

##### Revenue recognition (£908 million)

Refer to page 161 (Audit Committee Report), page 177 (accounting policy) and page 182 (financial disclosures).

*The risk* – In terms of audit risk, the Group's revenue can be divided into two categories:

- Advertising revenues: Whilst the majority of advertising revenue contracts are non-complex, there are a small number of individually significant one-off contracts in respect of barter arrangements and contracts where Channel 4 acts as a sales agent for other broadcasters' advertising, where there are unique contract terms and an increased level of audit focus is required to determine whether the appropriate revenue recognition policy has been followed.
- Sponsorship and other revenues: The unique nature of each of these agreements gives rise to a risk of incorrect revenue recognition between accounting periods, in particular in relation to the allocation of sponsorship and syndication revenues where contracts span the year end.

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*Our response* – Our audit procedures included, among others:

- testing the design and implementation of controls operating over each of the Group's revenue streams, and testing of the operating effectiveness where appropriate;
- assessing the terms of barter and sales house contracts, obtaining evidence to support the extent to which the related performance obligations have been met, and whether the associated revenue recognised complies with the relevant accounting standards and the Group's accounting policies;
- testing a sample of higher value items of sponsorship and other revenue with reference to contract terms and transmission schedules in respect of sponsorship campaigns, to assess whether revenue has been recognised in the appropriate accounting period and;
- considering the adequacy of the Group's accounting policy disclosures.

### 3. Our application of materiality and an overview of the scope of our audit

In establishing the overall audit strategy, and performing the audit, materiality for the Group financial statements as a whole was set at £6.7 million. This has been determined with reference to a benchmark of Group revenue (of which it represents 0.7%), which we consider to be one of the principal considerations for members and stakeholders of the Corporation in assessing the financial performance of the Group.

The Group's components are all accounted for at the Group's office in London. The Group audit team performed the audit of all these components at the Group level as if it was a single aggregated set of financial information using the materiality level set out above. We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.3 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

### 4. Our opinion on other matters prescribed under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the members have engaged us to audit the information in the Members' Remuneration Report that is described as having been audited, which the members have decided to prepare as if the Corporation were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

- the part of the Members' Remuneration Report which we were engaged to audit has been properly prepared in accordance with SI 2008 No.410 made under the Companies Act 2006, as if those requirements were to apply to the Corporation; and

- the information given in the Members' Remuneration Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the members' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the terms of our engagement we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Corporation, or returns adequate for our audit have not been received from branches not visited by us; or
- the Corporation's individual financial statements and the part of the Members' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of members' remuneration are not made; or
- we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the members have engaged us to review their Corporate Governance Statement as if the Corporation were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the members' statement, set out on page 146, in relation to going concern; and

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– the part of the Corporate Governance Statement on pages 151–154 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### **Respective responsibilities of members and auditor**

As explained more fully in the members' responsibilities statement set out on page 147, the members are responsible for the preparation of financial statements which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

### **Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)**

A description of the scope of an audit of financial statements is provided on our website at [kpmg.com/uk/auditscopeother2013](http://kpmg.com/uk/auditscopeother2013). This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### **The purpose of this report and restrictions on its use by persons other than the members**

This report is made solely to the Corporation's members, as a body, in accordance with the Broadcasting Act 1990 and the terms of our engagement, and, in respect of the separate opinion in relation to the Members' Remuneration Report and reporting on, on terms that have been agreed. Our audit work has been undertaken so that we might state to the members those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Karen Wightman**

for and on behalf of KPMG LLP, Statutory Auditor

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26 March 2014